Corp report

Exquisite Form
BRASSIERE (CANADA) LTD.®

ANNUAL REPORT
FOR THE FOUR MONTH FISCAL YEAR
ENDED JUNE 30, 1970

Exquisite Form

BRASSIERE (CANADA) LIMITED

DIRECTORS

John H. Brown,	Toronto
Joseph H. Gayne,	Toronto
J. Howard Hawke,	Toronto
Benjamin H. Oremland,	New York
Miles Reben,	Toronto
Garson Reiner,	New York
Stephen R. Reiner,	New York
Irwin Singer,	Toronto
Carl M. Solomon,	Toronto
Harry L. Solomon,	Toronto

OFFICERS

Garson Reiner,	Chairman of the Board
Harry L. Solomon,	President
Miles Reben,	Executive Vice-President
Joseph H. Gayne,	Vice-President and Secretary-Treasurer
Irwin Singer	Assistant Secretary-Treasurer

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
Montreal, Toronto, Winnipeg, Vancouver

AUDITORS

Wm. Eisenberg & Co.
Chartered Accountants, Toronto

SOLICITORS

Solomon, Singer & Solway — Toronto

LISTED

The Series A First Preference Shares and the Common Shares are listed on the Toronto Stock Exchange.

HEAD OFFICE

215 Spadina Avenue — Toronto, Canada

Financial Highlights

	Four Months Ended June 30, 1970	Twelve Months Ended February 28, 1970
	(Thousands of Dollars)	
Sales	**$ 3,968**	$ 13,291
Net earnings before extraordinary items (note 9)	**$ 34**	$ 300
Expenditure for property, plant and equipment (net)	**$ 22**	$ 168
Working capital	**$ 2,654**	$ 2,810
Ratio of current assets to current liabilities	**1.6**	1.7
Net earnings per common share before extraordinary items (note 9) and after first preference share dividends	**$ .05**	$ .50
Shareholders' Equity	**$ 4,483**	$ 4,511

Report to Shareholders:

Exquisite Form

A change in fiscal year end from the last day of February to June 30 has necessitated the publication of audited statements for the four month period from March 1, 1970 to June 30, 1970. Comparable figures for the same period last year are not available. However, for informational purposes only, figures are supplied for the twelve month period ended February 28, 1970.

Historically, the period under review has always represented a slower season for the Company, the main thrust of activity occurring in the Fall months of the year.

Financial

Consolidated sales were $3,968,000 and represented improvements in several areas of the Company's sales activities. Net income, before extraordinary items, amounted to $34,000 or 5 cents per share. The major portion of the extraordinary items resulted from a loss on foreign exchange adjustments caused by the freeing of the Canadian dollar. As a result, net loss, after extraordinary items, was $28,000.

The Company's Working Capital totalled $2,654,000 at June 30, 1970, compared with $2,810,000 at February 28, 1970. The decrease of $156,000, reflects foreign exchange adjustments, capital expenditures for plant and equipment, reduction of long term debt, and non-cash revenue.

Capital Structure

It is the intention of the Company to raise additional funds through its U.K. subsidiary by a public offering in England of shares representing 33⅓ per cent of the equity of that subsidiary. To accomplish this the shares of the Company's wholly-owned subsidiaries in West Germany and Portugal are to be sold to Exquisite Form Brassiere (Great Britain) Limited. To ensure the flow of proceeds to Canada, approval of debentureholders is required under the terms of the Trust Indenture. Should such approval be forthcoming, proceeds from the transaction will be used to reduce long term debt related to these subsidiaries and to further strengthen the overall financial position of the Company.

Operations

In general, the operations of the Company and its subsidiaries have experienced an overall improvement during the four month period. In Canada, newly-introduced designs in brassieres and girdles are receiving satisfactory acceptance in the market place. The design staff has been augmented and every effort is being made to put Exquisite Form in the forefront of the resurgence of sales which has been predicted by the industry as a side-benefit of today's changing fashion trends.

To achieve further operational efficiencies, the production of Lady Manhattan and Dunley products are being combined. In addition, Dunley has adopted a new concept in the marketing of men's shirts which should shift the emphasis of its production toward custom styling for large retail accounts.

Subsidiaries in South America experienced good progress during the period and are expected to show improved results over the next fiscal year. In Venezuela, the operations of Exquisite Form and Sel-Fex have been successfully integrated with a minimum of disruption, and this newly-merged subsidiary is currently operating at extremely high volumes to meet current demands for its products.

Operations in the United Kingdom and in Europe have resulted in continued progress which should be maintained or increased in the coming year.

Albion Realty & Mortgage, Inc., which entered the real estate business in Florida last year, has developed to the point where consideration is being given to expanding its operations into other geographical areas.

Outlook

The production of audited statements for a four-month fiscal period is, at best, an exercise in accounting that should not prudently be applied as a measurement of future annual trends. However, management is confident that the operations of the Company in the forthcoming fiscal year will produce gratifying results for shareholders.

On behalf of the Board of Directors

Harry L. Solomon

Toronto, December 4, 1970.

Harry L. Solomon, *President*

Consolidated Statements of Income and Retained Earnings

Income

	Four Months Ended June 30, 1970	Twelve Months Ended February 28, 1970
	(Thousands of Dollars)	
Revenue		
Net sales	$ 3,968	$13,291
Income from investments - affiliates (note 2)	61	120
Other income	11	45
	4,040	13,456
Expenses		
Cost of sales and expenses (notes 10 and 11)	3,891	12,557
Depreciation and amortization (note 12)	50	262
Interest on long-term debt	34	106
Income taxes	31	231
	4,006	13,156
Net income before extraordinary items	34	300
Extraordinary items		
— Foreign Exchange adjustments on consolidation	(62)	33
— Other (note 9)	—	(137)
	(62)	(104)
Net income (loss) for the period	$ (28)	$ 196
Earnings per common share (note 13)		
Before extraordinary items	$ .05	$ .50
Extraordinary items (note 9)	(.10)	(.20)
Net income (loss) for the period	$ (.05)	$ .30

Retained Earnings

	Four Months Ended June 30, 1970	Twelve Months Ended February 28, 1970
At beginning of period		
As previously reported	$ 2,380	$ 2,121
Prior years' adjustments (note 3)	(191)	(93)
As restated	2,189	2,028
Net income (loss) for the period	(28)	196
	2,161	2,224
Dividends - first preference shares (June 30, 1970 - $.15; February 28, 1970 - $.60)	5	19
- second preference shares (February 28, 1970 - $1.25)	—	16
	5	35
At end of period	$ 2,156	$ 2,189

Consolidated Statement of Source and Use of Funds

Exquisite Form Brassiere (Canada) Limited
and Subsidiary Companies

	Four Months Ended June 30, 1970	Twelve Months Ended February 28, 1970
	(Thousands of Dollars)	
Source of Funds		
Operations		
Net income (loss) for the period	**$ (28)**	$ 196
Deductions not affecting working capital		
Depreciation and amortization (note 12)	**50**	262
Write-off of deferred charges (note 9)	—	48
	22	506
Less: Investment income not received in cash (note 2)	**(58)**	(119)
Deferred income taxes (note 7)	**(52)**	(5)
	(88)	382
Capital stock (note 8)	**5**	653
Loans receivable	—	312
Disposal of building in Venezuela (note 9)	—	394
Mortgage payable	—	400
Notes payable	—	400
	(83)	2,541
Use of Funds		
Plant and equipment less disposals	**22**	168
Long-term debt	**44**	266
Second preference shares	—	650
Subsidiaries and affiliates		
Conlus-Confeccoes Lusas Limitada	—	45
Exquisite Form Brassiere (Great Britain) Limited	—	800
Albion Realty & Mortgage, Inc. (note 4)	**2**	140
Sel-Fex C.A. (note 3)	—	1,018
Dividends	**5**	35
Other (net)	—	27
	73	3,149
(Decrease) in working capital	**$ (156)**	$ (608)
Working Capital		
At beginning of period		
As previously reported	**$ 2,838**	$ 3,511
Prior years' adjustments (note 3)	**(28)**	(93)
As restated	**2,810**	3,418
(Decrease) in working capital	**(156)**	(608)
At end of period	**$ 2,654**	$ 2,810

Consolidated Balance Sheet
as at June 30, 1970

Assets

	1970 June 30th	1970 February 28th
	(Thousands of Dollars)	
Current Assets		
Cash	**$ 123**	$ 63
Accounts receivable	**2,321**	2,398
Short term investments	**131**	136
Special refundable tax	**11**	11
Inventories - lower of cost and net realizable value	**4,302**	4,275
Prepaid expenses	**167**	144
Loan receivable - current portion	**80**	80
	7,135	7,107
Fixed Assets		
Land and buildings - cost	**333**	333
Equipment and leasehold improvements - cost	**1,949**	1,938
	2,282	2,271
Less: accumulated depreciation (note 12)	**1,393**	1,359
	889	912
Other Assets		
Excess of cost over book value of shares in subsidiary companies	**1,345**	1,345
Loan receivable	**320**	320
Investments and advances - affiliates (notes 2, 3 and 4)	**1,342**	1,281
- sundry - cost	**27**	27
Deferred charges		
— income taxes (note 7)	**35**	(17)
— patent	**15**	18
— debenture discount	**50**	52
	3,134	3,026
	$11,158	$11,045

On behalf of the Board: Garson Reiner, Director
Harry L. Solomon, Director

Liabilities

	1970 June 30th	1970 February 28th
	(Thousands of Dollars)	
Current Liabilities		
Bank indebtedness (note 5)	**$ 2,236**	$ 2,037
Accounts payable and accrued	**1,289**	1,431
Notes payable	**285**	175
Dividends payable	—	5
Advances from parent company	**73**	38
Income taxes payable (note 5)	**418**	428
Current portion of long-term debt	**180**	183
	4,481	4,297
Long–Term Debt		
Notes payable	**320**	320
Mortgage payable-repayable in West German Marks	**349**	392
Sinking fund debentures (note 6)	**1,525**	1,525
	2,194	2,237
Total Liabilities	**6,675**	6,534

Shareholders' Equity

Capital Stock (note 8)		
Authorized		
181,814 First preference shares of the par value of $10 each, issuable in series		
7,000 5% non-cumulative, non-voting, redeemable second preference shares of the par value of $50 each		
1,117,812 Common shares without par value		
Issued and fully paid		
31,814 6% cumulative, redeemable, first preference shares, series A	**318**	318
629,176 ¼ Common shares (February 28, 1970 - 628,136 ¼)	**2,009**	2,004
	2,327	2,322
Retained Earnings	**2,156**	2,189
	4,483	4,511
	$11,158	$11,045

Notes to the Consolidated Financial Statements and Auditors' Report

NOTES
June 30, 1970

(1) ACCOUNTING PRINCIPLES

The Company, its subsidiaries and affiliates have changed their fiscal year ends from February 28 to June 30 commencing in 1970 and thereafter.

Wholly Owned Subsidiary Companies — Consolidated
- — Exquisite Form Brassiere Ltd. G.m.b.H. — West Germany
- — Feminine Form Miederwaren G.m.b.H. — West Germany
- — Conlus — Confeccoes Lusas Limitada — Portugal
- — Exquisite Form Brassiere de Colombia Ltda. — Colombia
- — Exquisite Form Brassiere (Great Britain) Limited — Great Britain
- — Gossip Limited — Great Britain
- — Lady Manhattan (Canada) Limited — Canada
- — Dunley Shirtmakers of Canada, Limited — Canada

All significant intercompany loans and transactions have been eliminated on consolidation. Foreign currencies have been translated into Canadian funds at free rates on the following bases:

Current assets, current liabilities and long-term debt — at the prevailing rate on June 30, 1970.

Fixed assets and other assets — at the average cost in Canadian funds in the period in which acquired or incurred.

Profit and loss accounts — at the average rate for the period.

No provision has been made in these financial statements for any withholding taxes that may be payable on future distributions of retained earnings from foreign subsidiaries and affiliates.

Certain countries have exchange restrictions but their currencies are convertible into Canadian dollars at free rates of exchange upon approval by their Central Bank.

The restated consolidated financial statements (notes 3 and 9) for the year ended February 28, 1970 are shown for comparative purposes only, and should be read in conjunction with the notes to the consolidated financial statements in the annual report for that year.

(2) INVESTMENTS AND ADVANCES — AFFILIATES	June 30, 1970	February 28, 1970
50% Owned-at cost plus the Company's share of earnings to date, less dividends received		
Sel-Fex C.A. — Venezuela (Note 3)	**$ 934,000**	$ 954,000
Albion Realty & Mortgage, Inc. — U.S.A. (Note 4)	**339,000**	259,000
Lawsonit Products Limited — Canada	**35,000**	34,000
33 ⅓ % Owned		
Exquisite Form Espana S.A. — Spain — at cost. The Company's share of the unaudited net profit was $1,000 for the period, and the net equity value was $14,000 at June 30, 1970, after a dividend of $3,000 which is included in the financial statements.	**34,000**	34,000
	$1,342,000	$1,281,000

(3) SEL-FEX C.A. — VENEZUELA

By agreement, the Company merged with Sel-Fex C.A., a company in the same business by transferring the net assets of Exquisite Form Brassiere de Venezuela C.A. and Elasticos de Venezuela C.A. for 50% of the issued capital stock. The company will participate in net earnings to the extent of 30% in 1970, 32½% in 1971, 37½% from 1972 to 1990 and 50% thereafter. Both parties are required to pay any differences between the agreed valuation of current assets and that which is finally realized.

The transfer was to have been completed at December 31, 1969 (as reported at February 28, 1970). However, by subsequent agreement, the effective date was changed to February 28, 1970, and certain amounts comprising indemnity payments and moving expenses(as described below) have been included in the restated figures to February 28, 1970.

	Extra-ordinary Items (Note 9)	Prior Years' Adjust-ment	
Investment at February 28,1970, as previously reported			$1,117,000
Less:			
Indemnity payments to total staff according to Venezuelan labour law required when Exquisite Form Brassiere de Venezuela C.A. ceased its operations	$13,000	$93,000	$ 106,000
Expenses incurred in moving the factory of Exquisite Form Brassiere de Venezuela C.A. from Maracay to Caracas during January and February, 1970	67,000	—	67,000
Other	18,000	—	18,000
	$98,000	$93,000	$ 191,000
			$ 926,000
Additional Advances			28,000
Investment at February 28, 1970, as restated			$ 954,000

Sel-Fex C.A. reports that Elasticos de Venezuela C.A. suffered a small loss in the current period. The Company's share has not been included herein because the statement was not available due to the moving and curtailing of the operations during the period.

(4) ALBION REALTY & MORTGAGE, INC.

The Company owns 50% of the issued capital stock of Albion which commenced operations on May 26, 1969. The Company has subordinated its advances of $110,000 to Albion's bankers.

House sales made by Albion require it to accept an instalment note, secured by a second mortgage on the property sold, for that portion of the contract price in excess of the first mortgage assumed by the buyer and the down payment, which generally approximates 5% of the sales price. For financial reporting purposes, the sale is recorded at the time of closing when title ordinarily passes. Based on collection experience to date, management has made what it considers to be an adequate provision for future losses on these mortgages receivable.

(5) ASSETS PLEDGED

The accounts receivable and inventories of the Company and its subsidiaries have been pledged as security for the bank loans. The Company has assigned certain assets as security for income tax reassessments of $206,000.

(6) SINKING FUND DEBENTURES

The 6¼% Sinking Fund Debentures, Series A, maturing December 1, 1982, were issued under a trust indenture dated November 15, 1962 which provided for the following conditions, inter alia:

(a) Specific pledge of all shares of subsidiaries owned by the Company, a first floating charge on all assets whatsoever and restrictions on dividends.

(b) Redemption prior to maturity at a premium which reduces annually.

(c) Establishment of a sinking fund for the retirement of $100,000 aggregate principal amount of Series A Debentures on December 1 from 1970 to 1981 inclusive. To date, the Company has elected to purchase debentures for cancellation in lieu of setting up a sinking fund.

(7) DEFERRED INCOME TAXES

Income tax reductions expected to be realized in future years by carrying forward losses incurred by the Company in the current period. As these losses have been almost recovered since June 30, 1970, it is the view of management that it is virtually certain that these reductions will be realized.	$58,000
Less: Deferred income taxes provided in respect of depreciation claimed for income tax purposes in excess of amounts recorded in the accounts	23,000
	$35,000

(8) CAPITAL STOCK

Options

The Company has granted options to key employees to purchase an aggregate of 20,000 common shares, each cumulatively exercisable over five years at a subscription price of $5.25 per share in progressive annual instalments of 20% of the number of shares optioned.During the period, 1,040 shares were issued under this plan.

The Company has granted an option to an employee of Albion Realty & Mortgage, Inc. to purchase an aggregate of 15,000 common shares at a price of $7.00 per share, cumulatively exercisable at the rate of 3,000 shares per year for a term of five years and conditional upon certain levels of profitability of Albion.

The Company has agreed to grant The Summit Organization, Inc. an option to purchase 20,000 common shares (to a maximum of 100,000) for each $100,000 line of credit, made available by Summit to Albion exceeding the first $500,000 granted. The price for the shares is the greater of $ 8.00 per share or 90% of the market value on the date of the grant of option. Each option is to expire five years from the date of grant subject to certain conditions.

(9) EXTRAORDINARY ITEMS — OTHER

	February 28, 1970	
	As Restated	As Previously Reported
Expenses incurred in moving factory in Venezuela (Note 3)	**$ 67,000**	$ —
Indemnity payments to total staff in Venezuela (Note 3)	**13,000**	—
Write-off of deferred charges	**60,000**	48,000
Settlement of lawsuits (net of taxes)	**28,000**	28,000
Profit on sale of building in Venezuela	**(31,000)**	(37,000)
	$137,000	$39,000
	39,000	
Restated increase in Venezuela (Note 3)	**$ 98,000**	

(10) LONG TERM LEASES

The Company and its subsidiaries have entered into leases expiring through 1982 depending upon the exercise of certain options, with a maximum rental payable in any one year of $206,000. During the period ended June 30, 1970, the Company received rental income of $10,000 for a portion of its premises.

(11) EXECUTIVE REMUNERATION

Aggregate direct remuneration paid to directors and senior officers in the period totalled $62,000.

(12) DEPRECIATION

The Company and its subsidiaries generally depreciate their fixed assets in Canada on the diminishing balance method at maximum income tax rates and elsewhere at rates appropriate to their geographic location and type of business.

(13) EARNINGS PER SHARE

Earnings per share have been calculated on the weighted monthly average of shares outstanding during the year, after deduction of the dividends on the first preference shares.

As the exercise of the options (after imputing bank loan interest to the proceeds) would increase fully diluted earnings per share and decrease the loss per share after extraordinary items, these calculations have been excluded.

(14) CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The Company is contingently liable for an income tax reassessment for 1965 of approximately $150,000. In the opinion of tax counsel, this assessment can be successfully defended and accordingly, no provision has been made in the financial statements.

The Company is defendant in an action for $400,000. Legal counsel is of the opinion that this action is without merit and, accordingly, no provision has been made in the financial statements.

The Company is contingently liable for bank loans and guarantees of approximately $700,000.

The Company has agreed with The Summit Organization, Inc., that in consideration of the latter guaranteeing and having guaranteed certain bank loans made or to be made to the Company and its subsidiaries aggregating approximately $1,380,000, the Company will guarantee a bank loan to The Summit Organization, Inc. of approximately $1,500,000, which funds have not been advanced to date.

Subsequent to the year end, the Company negotiated a preliminary agreement with an underwriter in England to sell approximately 33⅓% of the total issued capital of Exquisite Form Brassiere (Great Britain) Limited for distribution to the public. This agreement provides for the prior acquisition of the subsidiaries in West Germany and Portugal by the English subsidiary and the approval of the Sinking Fund Debentureholders.

Auditors' Report

To the Shareholders of
Exquisite Form Brassiere (Canada) Limited.

We have examined the consolidated balance sheet of Exquisite Form Brassiere (Canada) Limited as at June 30, 1970 and the consolidated statements of income, retained earnings and source and use of funds for the period then ended. Our examination of the financial statements of Exquisite Form Brassiere (Canada) Limited (the parent company) and those subsidiaries and affiliates of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries and affiliates.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at June 30, 1970 and the results of their operations and the source and use of their funds for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year (as restated - notes 3 and 9).

Toronto, Canada,
December 1, 1970

WM. EISENBERG & CO.
Chartered Accountants

Financial Review

EXQUISITE FORM BRASSIERE (CANADA) LIMITED

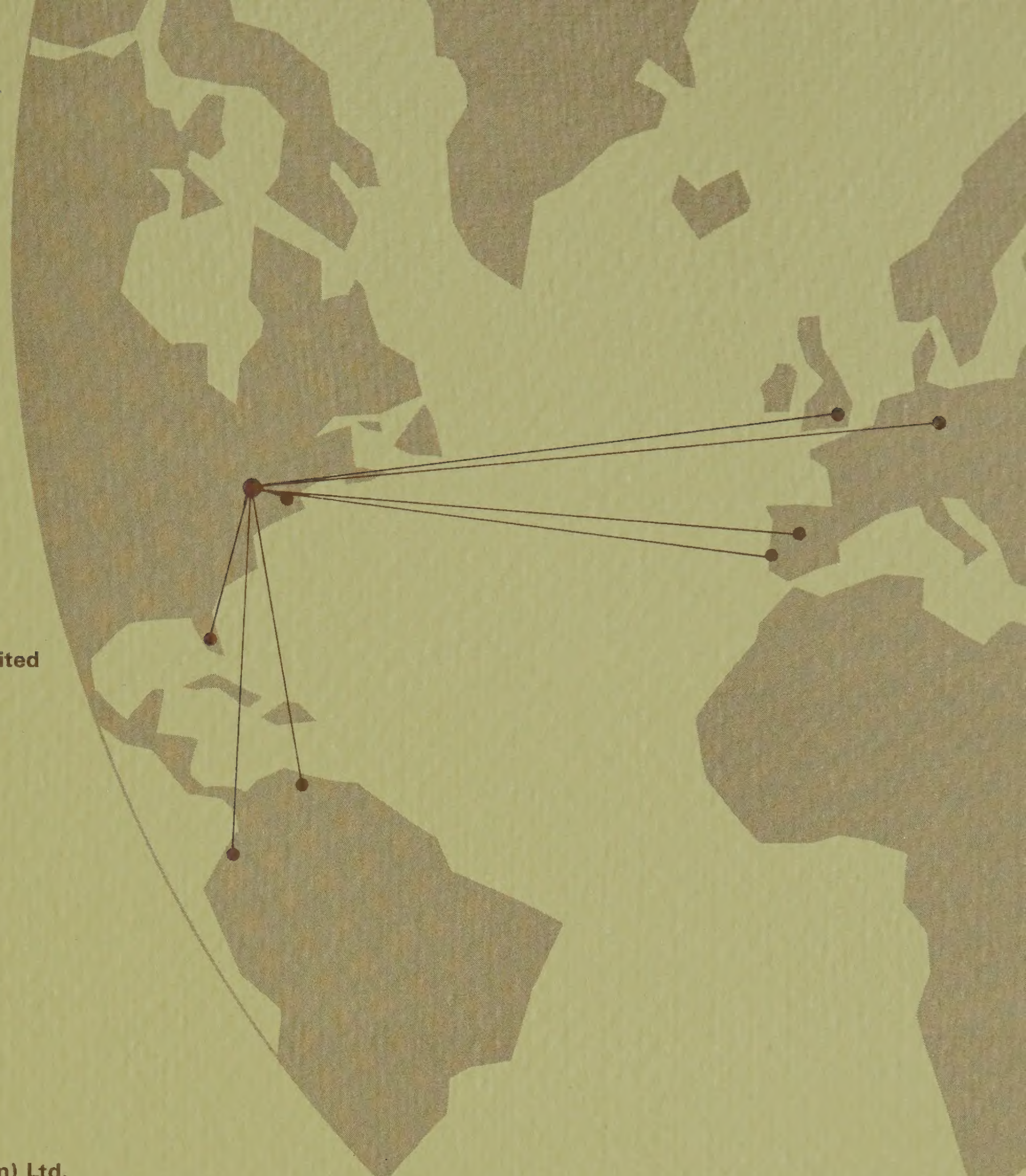
and Subsidiary Companies

(Thousands of Dollars)	Four Months Ended June 30, 1970	TWELVE MONTHS ENDED FEBRUARY TWENTY EIGHTH									
		1970**	1969*	1968	1967	1966	1965	1964	1963	1962	1961
Sales.	$ 3,968	$ 13,291	$ 13,221	$ 11,479	$ 11,746	$ 11,688	$ 10,418	$ 9,809	$ 8,249	$ 7,289	$ 6,238
Net earnings before extra — ordinary items (note 9).	34	300	290	201	359	638	603	505	475	464	380
Net flow of funds from operations.	(88)	382	133	308	492	753	714	656	606	574	496
Expenditures for property plant & equipment (net).	22	168	163	60	202	218	227	285	103	155	339
Working capital.	2,654	2,810	3,511	3,354	3,203	3,115	3,274	4,647	4,274	2,204	2,014
Ratio of current assets to current liabilities.	1.6	1.7	2.0	2.3	2.0	1.9	2.2	3.8	3.5	2.6	2.8
Sinking fund debentures.	1,625	1,625	1,700	1,775	1,850	1.900	1,950	2,000	2,000	—	—
Shareholders' equity.	4,483	4,511	4,440	4,886	4,716	4,524	4,733	4,350	3,962	3,516	3,115
Shareholdings											
Common Shares											
- outstanding at year end.	629,176	628,136	514,653	514,653	514,253	482,978	360,238	357,888	357,888	357,888	356,013
- earnings per common share before extraordinary items (note 9) and after preference share dividends.	.05	.50	.52	.35	.66	1.22	1.43	1.16	1.08	1.06	1.07
- dividends.	—	—	—	—	.48	.70	17½	—	—	—	—
First Preference Shares											
- outstanding at year end.	31,814	31,814	31,814	31,814	31,814	36,889	145,775	148,125	148,125	148,125	150,00
- dividends.	.15	.60	.60	.60	.60	.60	.60	.60	.60	.56	—

*Restated to include Exquisite Form Brassiere (Great Britain) Limited on a consolidated basis.
**Restated to give effect to notes 3 and 9.

The 1961-1969 figures do not give effect to the retroactive application of prior period adjustments.

INTERNATIONAL OPERATIONS



CANADA

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Dunley Shirtmakers of Canada
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Lawsonit Products Limited
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